NEBRASKA PROPERTY AND LIABILITY INSURANCE GUARANTY ASSOCIATION

Statements of Assets and Fund Balance
Arising from Cash Transactions

December 31, 2008 and 2007

		2008	2007
Assets			
Cash and cash equivalents	$	1,039,289	644,840
U.S. Treasury notes		22,509,955	20,029,862
Deposit		775	775
Total assets	$	23,550,019	20,675,477
Fund Balance			
Fund balance	$	23,550,019	20,675,477

See accompanying notes to financial statements.

NEBRASKA PROPERTY AND LIABILITY INSURANCE GUARANTY ASSOCIATION

Statements of Revenue Collected, Expenses Paid, and Change in Fund Balance

Years ended December 31, 2008 and 2007

	2008	2007
Revenue collected:		
Assessments	$ 2,492,066	2,492,182
Interest income	813,227	981,769
Liquidation proceeds and other	1,833,547	1,478,291
Total revenue collected	5,138,840	4,952,242
Expenses paid:		
Losses	1,160,506	1,654,332
Loss adjustment expenses	7,025	17,523
Refund of assessments	846,260	770,175
General and administrative	250,507	254,847
Total expenses paid	2,264,298	2,696,877
Revenue collected over expenses paid	2,874,542	2,255,365
Fund balance, beginning of year	20,675,477	18,420,112
Fund balance, end of year	$ 23,550,019	20,675,477

See accompanying notes to financial statements.

(1) Organization and Summary of Significant Accounting Policies

(a) Organization

The Nebraska Property and Liability Insurance Guaranty Association (the Association) was created in May 1971 by Nebraska state statute as a nonprofit, unincorporated legal entity. The purpose of the Association is to provide a method of payment for certain claims against insolvent insurance companies to avoid financial loss to claimants or to policyholders in the state of Nebraska, to assist in the detection and prevention of insurer insolvencies, and to provide an association of insurers against which the cost of such protection may be assessed in an equitable manner. A majority of the Association's revenues are derived from Nebraska-based insurers.

(b) Basis of Accounting

The Association's policy is to prepare its financial statements on the basis of cash receipts and disbursements. Under this basis, revenues are recognized when collected rather than when earned and certain expenditures are recognized when paid rather than when incurred. Consequently, assessments receivable from insurers and amounts due for supplies received, services rendered, or estimated unpaid claims are not included in the financial statements.

(c) Allocation of Revenue Collected and Expenses Paid

The Association attempts to specifically identify, to the degree allowable, all revenue collected and expenses paid. Thus, each liquidation receives its share of revenue and expense items directly related to it. The following items are, for the most part, specifically identifiable: assessments collected, losses paid, loss adjustment expenses paid, refund of assessments, and certain general and administrative expenses.

(d) Cash and Cash Equivalents

The Association classifies all highly liquid investments with an original maturity of three months or less when purchased as cash equivalents. At December 31, 2008 and 2007, cash equivalents consist of investment pool accounts.

(e) Investments

The Association carries its investments at cost. While the Association intends to hold its investments in debt securities to maturity, its ability to do so may be affected by the timing and amount of claims presented as a result of insurer insolvencies. A disposition of investment in debt securities may result in a realized gain or loss using a cash-basis method of accounting for the difference between fair value and cost of the security at the date of sale. The fair market value of U.S. Treasury notes was $22,454,849 and $20,037,773 at December 31, 2008 and 2007, respectively. Premiums paid and discounts received in connection with these investments are not amortized or accrued into interest income over the life of the investment. Rather, they are recorded as a component of net interest income at the maturity date.

The U.S. Treasury notes held as of December 31, 2008 mature as follows:

	Cost	Fair market value
2009	$ 20,964,020	20,870,318
2010	1,545,935	1,584,531
	$ 22,509,955	22,454,849

Gross unrealized losses on investment securities and the fair value of the related securities, aggregated by the length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2008 and 2007 were as follows:

	Less than 12 months		12 months or more		Total	
	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value
2008:						
U.S. Treasury notes	$ 87,946	12,710,082	—	—	87,946	12,710,082
2007:						
U.S. Treasury notes	$ 3,651	2,494,649	—	—	3,651	2,494,649

The unrealized losses on investments in U.S. Treasury notes were caused by interest rate increases.

(f) *Income Taxes*

The Association is an instrumentality of the state of Nebraska and is a tax-exempt organization as described in Section 115 of the Internal Revenue Code.

(g) *Fair Value Measurements*

In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 157, *Fair Value Measurements* (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value under U.S. generally accepted accounting principles, and expands disclosures about fair value measurements.

SFAS 157 requires companies to disclose fair value of certain assets and liabilities according to a fair value hierarchy. This hierarchy ranks the quality and reliability of the inputs used to determine fair values, which are then classified and disclosed in one of three categories. The three levels of the fair value hierarchy are:

- Level 1 – quoted prices in active markets for identical assets or liabilities.
- Level 2 – quoted prices in active markets for similar assets or liabilities; quoted prices in markets that are not active; and model-derived valuations whose inputs are observable.
- Level 3 – model-derived valuations with unobservable inputs.

As required by SFAS 157, assets and liabilities are classified based on the lowest level of input that is significant to the fair value measurement. The Association's assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels. As of December 31, 2008, the fair value amounts of the Association's cash equivalents and investments, as disclosed in note 1(e), have been derived using level 1 inputs. The Association adopted the disclosure requirements of SFAS 157 for the fiscal year beginning January 1, 2008. The adoption of SFAS 157 did not impact the Association's financial statements.

(2) Assessments

The Association collects assessments from each member insurer (qualifying entities licensed to write insurance in the state of Nebraska) in proportion to the net direct written premiums of the member insurer in relation to the net direct written premiums of all member insurers. In addition, the Association may make an assessment for the purpose of meeting administrative costs and other general expenses not related to a particular impaired insurer. The member insurer may deduct one-fifth of the assessment each year for five years from its state premium tax liability. Should the Association recover any sum representing amounts previously written off by member insurers and offset against taxes, this recovered amount is paid by the Association to the director of insurance for the state of Nebraska. If the recovery is before the end of the year in which the assessment was made, the Association reimburses this amount directly to the member insurer and no premium tax offset is allowed.

(3) Claims

The Association is obligated only to the extent of the covered claims existing prior to the date a member insurer becomes an insolvent insurer or arising within 30 days after the member insurer has been determined insolvent. For a claim to be covered, it must arise out of and within the coverage of an insurance policy issued by the member insurer, and the claimant or insured must be a resident of the state of Nebraska or the property from which the claim arises must be permanently located in the state.

(4) Estimated Unpaid Claims (Unaudited)

As of December 31, 2008, the Association estimates unpaid claims to be as follows:

Insolvency		
Iowa National Mutual Insurance Company	$	167,489
American Mutual Insurance Company		184,172
Rockwood Insurance Company		393,826
Home Insurance Company		1,262,394
Commercial Compensation Casualty Company		52,816
Credit General Insurance Company		691,209
Reliance Insurance Company		6,556,660
PHICO		1,407,323
Legion Insurance Company		2,968,189
Fremont Indemnity Insurance Company		1,154,820
Casualty Reciprocal Exchange		27,259

These amounts are estimates, and the ultimate settlement of losses may vary from the amounts above. No representation is made by the Association that the ultimate liability may not be in excess of the above figures. Certain insolvencies have not had assessments levied as of December 31, 2008 to cover the estimated claims.

(5) Lease Commitments

The Association leases office space under a noncancelable operating lease that expires on November 30, 2009. Total lease expense for office space was approximately $13,500 for each of the years ended December 31, 2008 and 2007. Future annual lease payments under terms of the lease are approximately $12,375 in 2009.

(6) Refund of Assessments

The Association assesses member insurers for insolvencies based on case reserves estimated at the time of insolvency. The member insurers then offset the assessments against their respective premium tax liabilities. If such funds, including earned interest, are sufficient to cover the claim payments on the insolvencies, the Association's board of directors will authorize and pay a refund of assessments as reflected in the accompanying statements of revenue collected, expenses paid, and change in fund balance.

(7) Line of Credit

The Association has entered into a revolving line of credit with a financial institution that provides for borrowings up to $5,000,000. The line of credit expires in September 2009. Borrowings under the line of credit bear interest at the U.S. Bank prime rate. The Association had $5,000,000 available for borrowings with no outstanding balances on this line of credit at December 31, 2008 or 2007. Management plans to renew this line of credit upon expiration in September 2009.

Schedule 1

NEBRASKA PROPERTY AND LIABILITY INSURANCE GUARANTY ASSOCIATION

Combining Schedule – Revenue Collected, Expenses Paid, and Change in Fund Balance

Year ended December 31, 2008

	Excalibur	Ideal Mutual	Iowa National Mutual	Transit Casualty	Carriers	Carried forward
Date of liquidation	9/5/1984	2/7/1985	10/10/1985	12/4/1985	1/16/1986	
Revenue collected:						
Assessments	$ —	—	—	—	—	—
Interest income	35,405	14,483	59,062	2,879	49,520	161,349
Liquidation proceeds and other	—	—	—	—	43,125	43,125
Total revenue collected	35,405	14,483	59,062	2,879	92,645	204,474
Expenses paid:						
Losses	—	—	6,933	—	—	6,933
Loss adjustment expenses	—	—	—	—	—	—
Refund of assessments	—	705,305	—	140,205	—	845,510
General and administrative	—	—	3,697	—	—	3,697
Total expenses paid	—	705,305	10,630	140,205	—	856,140
Revenue collected over (under) expenses paid	35,405	(690,822)	48,432	(137,326)	92,645	(651,666)
Fund balance, beginning of year	963,051	690,822	1,611,676	137,326	1,313,558	4,716,433
Fund balance, end of year	$ 998,456	—	1,660,108	—	1,406,203	4,064,767

(Continued)

Schedule 1

NEBRASKA PROPERTY AND LIABILITY INSURANCE GUARANTY ASSOCIATION

Combining Schedule – Revenue Collected, Expenses Paid, and Change in Fund Balance

Year ended December 31, 2008

	Brought forward	Mission National	American Mutual	American Mutual Liability	Rockwood	Employers Casualty	Carried forward
Date of liquidation		2/24/1987	3/9/1989	3/9/1989	8/26/1991	1/6/1994	
Revenue collected:							
Assessments	$ —	—	—	—	—	—	—
Interest income	161,349	—	8,654	6,154	15,259	2,206	193,622
Liquidation proceeds and other	43,125	135,749	—	—	—	—	178,874
Total revenue collected	204,474	135,749	8,654	6,154	15,259	2,206	372,496
Expenses paid:							
Losses	6,933	—	7,300	—	17,559	—	31,792
Loss adjustment expenses	—	—	—	—	—	—	—
Refund of assessments	845,510	—	—	—	—	—	845,510
General and administrative	3,697	—	3,939	—	6,228	—	13,864
Total expenses paid	856,140	—	11,239	—	23,787	—	891,166
Revenue collected over (under) expenses paid	(651,666)	135,749	(2,585)	6,154	(8,528)	2,206	(518,670)
Fund balance, beginning of year	4,716,433	—	241,172	167,397	426,001	59,997	5,611,000
Fund balance, end of year	$ 4,064,767	135,749	238,587	173,551	417,473	62,203	5,092,330

(Continued)

Schedule 1

NEBRASKA PROPERTY AND LIABILITY INSURANCE GUARANTY ASSOCIATION

Combining Schedule – Revenue Collected, Expenses Paid, and Change in Fund Balance

Year ended December 31, 2008

	Brought forward	Commercial Compensation	Credit General	Acceleration National	HIH America	Reliance	PHICO	Home Insurance	Carried forward
Date of liquidation		9/26/2000	1/2/2001	2/28/2001	5/8/2001	10/3/2001	2/1/2002	6/13/2003	
Revenue collected:									
Assessments	$ —	—	—	—	—	—	—	—	—
Interest income	193,622	15,052	65,084	2,856	—	375,473	11,984	31,836	695,907
Liquidation proceeds and other	178,874	—	—	—	—	27,564	215,300	166,258	587,996
Total revenue collected	372,496	15,052	65,084	2,856	—	403,037	227,284	198,094	1,283,903
Expenses paid:									
Losses	31,792	248	22,522	—	—	443,496	122,778	62,540	683,376
Loss adjustment expenses	—	—	—	—	—	4,999	954	—	5,953
Refund of assessments	845,510	—	—	—	—	—	—	—	845,510
General and administrative	13,864	1,276	10,781	—	—	109,053	22,490	21,369	178,833
Total expenses paid	891,166	1,524	33,303	—	—	557,548	146,222	83,909	1,713,672
Revenue collected over (under) expenses paid	(518,670)	13,528	31,781	2,856	—	(154,511)	81,062	114,185	(429,769)
Fund balance (deficit), beginning of year	5,611,000	410,171	1,785,584	77,678	(27,215)	10,423,944	257,003	768,655	19,306,820
Fund balance (deficit), end of year	$ 5,092,330	423,699	1,817,365	80,534	(27,215)	10,269,433	338,065	882,840	18,877,051

(Continued)

NEBRASKA PROPERTY AND LIABILITY INSURANCE GUARANTY ASSOCIATION

Combining Schedule – Revenue Collected, Expenses Paid, and Change in Fund Balance

Year ended December 31, 2008

	Brought forward	Fremont Insurance	Legion Insurance	Villanova Insurance	Casualty Reciprocal Exchange	Administrative	Total
Date of liquidation		7/2/2003	7/28/2003	7/28/2003	8/18/2004		
Revenue collected:							
Assessments	$ —	—	2,452,684	—	—	39,382	2,492,066
Interest income	695,907	—	110,199	—	—	7,121	813,227
Liquidation proceeds and other	587,996	202,077	1,042,557	329	—	588	1,833,547
Total revenue collected	1,283,903	202,077	3,605,440	329	—	47,091	5,138,840
Expenses paid:							
Losses	683,376	115,707	353,531	—	7,892	—	1,160,506
Loss adjustment expenses	5,953	—	1,072	—	—	—	7,025
Refund of assessments	845,510	—	—	—	—	750	846,260
General and administrative	178,833	18,860	48,083	—	1,304	3,427	250,507
Total expenses paid	1,713,672	134,567	402,686	—	9,196	4,177	2,264,298
Revenue collected over (under) expenses paid	(429,769)	67,510	3,202,754	329	(9,196)	42,914	2,874,542
Fund balance (deficit), beginning of year	19,306,820	(371,100)	1,615,303	(3,734)	(65,949)	194,137	20,675,477
Fund balance (deficit), end of year	$ 18,877,051	(303,590)	4,818,057	(3,405)	(75,145)	237,051	23,550,019

See accompanying independent auditors' report.

NEBRASKA PROPERTY AND LIABILITY INSURANCE GUARANTY ASSOCIATION

Combining Schedule – Revenue Collected, Expenses Paid, and Change in Fund Balance

From inception to December 31, 2008

	Closed insolvencies	Excalibur	Ideal Mutual	Iowa National Mutual	Transit Casualty	Carriers	Carried forward
Revenue collected:							
Assessments	$ 5,840,313	1,751,795	1,766,568	4,083,823	1,606,359	2,103,179	17,152,037
Interest income	561,213	777,337	527,886	1,571,841	127,293	1,443,716	5,009,286
Liquidation proceeds and other	5,797,764	981,914	568,489	2,786,063	135,372	582,853	10,852,455
Total revenue collected	12,199,290	3,511,046	2,862,943	8,441,727	1,869,024	4,129,748	33,013,778
Expenses paid:							
Losses	7,153,601	1,305,501	1,441,254	2,465,204	163,726	669,867	13,199,153
Loss adjustment expenses	61,776	16,711	25,121	84,463	7,327	8,189	203,587
Refund of assessments	4,233,749	1,137,420	1,324,438	4,083,823	1,641,429	1,983,550	14,404,409
General and administrative	750,164	52,958	72,130	148,129	56,542	61,939	1,141,862
Total expenses paid	12,199,290	2,512,590	2,862,943	6,781,619	1,869,024	2,723,545	28,949,011
Fund balance, at December 31, 2008	$ —	998,456	—	1,660,108	—	1,406,203	4,064,767

(Continued)

Schedule 2

NEBRASKA PROPERTY AND LIABILITY INSURANCE GUARANTY ASSOCIATION

Combining Schedule – Revenue Collected, Expenses Paid, and Change in Fund Balance

From inception to December 31, 2008

	Brought forward	Mission National	American Mutual	American Mutual Liability	Rockwood	Employers Casualty	Carried forward
Revenue collected:							
Assessments	$ 17,152,037	537,231	1,199,966	74,949	1,100,000	598,138	20,662,321
Interest income	5,009,286	109,073	76,933	62,496	273,806	165,536	5,697,130
Liquidation proceeds and other	10,852,455	694,029	57,676	309,178	304,931	265,281	12,483,550
Total revenue collected	33,013,778	1,340,333	1,334,575	446,623	1,678,737	1,028,955	38,843,001
Expenses paid:							
Losses	13,199,153	507,823	790,556	10,585	1,041,746	366,752	15,916,615
Loss adjustment expenses	203,587	—	30,636	—	14,945	5,219	254,387
Refund of assessments	14,404,409	646,105	—	219,759	—	527,742	15,798,015
General and administrative	1,141,862	50,656	274,796	42,728	204,573	67,039	1,781,654
Total expenses paid	28,949,011	1,204,584	1,095,988	273,072	1,261,264	966,752	33,750,671
Fund balance, at December 31, 2008	$ 4,064,767	135,749	238,587	173,551	417,473	62,203	5,092,330

(Continued)

Schedule 2

NEBRASKA PROPERTY AND LIABILITY INSURANCE GUARANTY ASSOCIATION

Combining Schedule – Revenue Collected, Expenses Paid, and Change in Fund Balance

From inception to December 31, 2008

	Brought forward	Commercial Compensation	Credit General	Acceleration National	HIH America	Reliance	PHICO	Home Insurance	Carried forward
Revenue collected:									
Assessments	$ 20,662,321	496,561	2,938,217	75,000	—	11,563,455	2,349,945	930,585	39,016,084
Interest income	5,697,130	65,503	311,097	10,611	—	1,330,283	99,616	122,608	7,636,848
Liquidation proceeds and other	12,483,550	140,142	—	11,220	97,776	4,048,614	1,042,300	398,431	18,222,033
Total revenue collected	38,843,001	702,206	3,249,314	96,831	97,776	16,942,352	3,491,861	1,451,624	64,874,965
Expenses paid:									
Losses	15,916,615	215,509	1,301,373	11,734	118,497	6,220,665	2,956,315	509,900	27,250,608
Loss adjustment expenses	254,387	8,106	26,611	—	1,255	109,700	60,128	16,322	476,509
Refund of assessments	15,798,015	—	—	—	—	—	—	—	15,798,015
General and administrative	1,781,654	54,892	103,965	4,563	5,239	342,554	137,353	42,562	2,472,782
Total expenses paid	33,750,671	278,507	1,431,949	16,297	124,991	6,672,919	3,153,796	568,784	45,997,914
Fund balance (deficit), at December 31, 2008	$ 5,092,330	423,699	1,817,365	80,534	(27,215)	10,269,433	338,065	882,840	18,877,051

(Continued)

Schedule 2

NEBRASKA PROPERTY AND LIABILITY INSURANCE GUARANTY ASSOCIATION

Combining Schedule – Revenue Collected, Expenses Paid, and Change in Fund Balance

From inception to December 31, 2008

	Brought forward	Fremont Insurance	Legion Insurance	Villanova Insurance	Casualty Reciprocal Exchange	Administrative	Total
Revenue collected:							
Assessments	$ 39,016,084	—	5,661,983	—	—	946,818	45,624,885
Interest income	7,636,848	—	158,402	—	—	350,270	8,145,520
Liquidation proceeds and other	18,222,033	1,674,154	1,424,543	775	—	95,151	21,416,656
Total revenue collected	64,874,965	1,674,154	7,244,928	775	—	1,392,239	75,187,061
Expenses paid:							
Losses	27,250,608	1,858,459	2,284,250	3,874	72,133	56,942	31,526,266
Loss adjustment expenses	476,509	78,174	42,992	—	—	—	597,675
Refund of assessments	15,798,015	—	—	—	—	5,876	15,803,891
General and administrative	2,472,782	41,111	99,629	306	3,012	1,092,370	3,709,210
Total expenses paid	45,997,914	1,977,744	2,426,871	4,180	75,145	1,155,188	51,637,042
Fund balance (deficit), at December 31, 2008	$ 18,877,051	(303,590)	4,818,057	(3,405)	(75,145)	237,051	23,550,019

See accompanying independent auditors' report.